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TAGS: [PGOV](#) [PREL](#) [PBTS](#) [ECON](#) [PHUM](#) [MD](#)
SUBJECT: TRANSNISTRIA: SMIRNOV'S POWER WEAKENING

REF: A. CHISINAU 1243
[1](#)B. CHISINAU 388

Classified By: Ambassador Michael D. Kirby for reasons 1.4 (b) and (d).

[1](#)1. (C) SUMMARY: With Transnistria's (TN) economic situation deteriorating, "President" Smirnov is showing unprecedented signs of weakness, and the previously unquestioned position of the TN leader now seems increasingly uncertain. While TN leaders formerly presented a united front, in recent meetings with the Ambassador, "Foreign Minister" Litskai and "Speaker" of the Supreme Soviet Shevchuk were openly critical of the leader's "uncompromising" policies. They noted that Smirnov was increasingly nervous and complained of his erratic and irrational behavior.

[1](#)2. (C) The gap between the Legislature and the Executive in TN appears to have widened, as evidenced by recent Supreme Soviet measures to address the economic situation which openly shot down Smirnov's proposals. Meanwhile, the stature of the more flexible Shevchuk has risen. Shevchuk's receptive response to Voronin's recent initiatives contrasted favorably with Smirnov's knee-jerk rejection. The TN Supreme Soviet is taking the lead on drafting its own proposals in response. Depending on where the Transnistrian dynamic leads, we could see changes that augur for greater flexibility at the 5 plus 2 negotiating table in the months ahead. END SUMMARY.

DETERIORATING ECONOMIC SITUATION WEAKENS SMIRNOV

[1](#)3. Transnistria's economic situation has deteriorated sharply since Russia severed financial assistance to the separatist region in April (REF B). A record drought over the summer compounded the situation, causing crop losses, increases in food prices and high inflation. The TN central bank projects inflation may reach 30-35% by the end of the year. Since Russia cut financial assistance to TN, Tiraspol has been struggling to cope with mounting budget deficits and demands to maintain social spending. In response, Transnistrian leader Smirnov announced plans to increase taxes on corporate profits, utility rates for consumers and food prices.

SUPREME SOVIET CHALLENGES THE EXECUTIVE

[1](#)4. (C) Meanwhile, the stature of Yevgeny Shevchuk, leader of the opposition Obnovlenie Party, which controls a majority in Parliament, has risen, as the Legislature increasingly challenges the Executive. Over the past two months, the Supreme Soviet has dealt Smirnov several defeats. Smirnov's efforts to raise taxes on alcoholic beverages, increase duties on the export of building materials, and modify the tax system to allow random checks of TN enterprises were all rejected by the Obnovlenie-controlled Supreme Soviet.

15. (C) The Supreme Soviet has also acted more independently. It repealed Smirnov's migration tax on foreigners and those transiting TN, stating that the tax was inconsistent with TN law, and voted to cancel the 100% duty on imports of some goods from right-bank Moldova. On October 10, the Supreme Soviet rejected the Executive's 2008 economic forecast, the basis for the budget, as "unrealistic." The Chairman of the Standing Committee for Economic Policy, Budget and Finance noted that the Executive's economic projections did not take into account the lack of Russian budgetary support, and thus provided a distorted view of the current economic situation and prospects for 2008. For example, the Executive set the inflation target at 12% for 2008, despite inflation which could reach 30-35% in 2007.

16. (C) Though Smirnov delivered his standard rejectionist response to President Voronin's recent confidence-building proposals (REF A), Shevchuk stepped forward with a more positive reply. Smirnov seems isolated in his rebuff of Voronin's offers, as the Parliament moves forward with drafting its own proposals. (COMMENT: Just as in the case of complying with Moldovan export rules, business interests' views - which Shevchuk is seen to represent - conflict with Smirnov's views and appear to be more receptive of Chisinau's initiatives. END COMMENT.)

COMMENT

17. (C) We lack insight into the rationale for Russia's suspension of direct support to TN, but the result is a weakening of Smirnov's control. Perhaps the Russians are sufficiently satisfied with Chisinau's pledges to maintain

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Russian investors' property rights in TN so that they no longer need to support a hard line against business. The Russians may believe that the time to act is before the 2009 Moldovan parliamentary elections, which likely will lead to a change in government with a new President who almost certainly will not support a Russian-centric resolution to the TN conflict.

18. (C) Russia may also believe that TN has served its purpose, linking Moldova inextricably to Russia's sphere of influence. If such is Russia's thinking, then Smirnov, whose personal, ideological and financial ties obstruct a solution, is no longer an asset. Removing Smirnov has long been Chisinau's precondition for a political settlement to the conflict. In 2001, when a possible resolution was in sight, President Voronin secured a promise from Russia to remove Smirnov prior to the TN "presidential" elections. However, the resilient Smirnov survived then, despite Russian pressure and rumors that the FSB - frustrated by his intransigence - was planning to permanently "retire" him.

19. (C) In any case, Russia's withdrawal of economic support for TN appears to have weakened Smirnov and emboldened Shevchuk. The legislative defeats Smirnov suffered demonstrate Shevchuk's growing power inside TN. Shevchuk has presented himself as a reasonable interlocutor concerned about economic affairs and open to negotiations with Chisinau within the 5 plus 2 format. We are under no illusion that Shevchuk is a democrat, however, as Smirnov noted during the visit of Spanish Foreign Minister Moratinos, "everyone is ignoring me, even the Russians." We believe Shevchuk and Obnovlenie will continue to challenge the Executive as TN struggles with its mounting economic crisis. Smirnov has been a major obstacle to Moldova's reunification to date, but his star appears to be fading. END COMMENT.

KIRBY